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GUEST: **Karl SAUVANT**
Chief, Research and Policy Analysis Branch
Division on Transnational Corporations and Investment
UNCTAD

JOURNALISTS: David Usborne, *The Independent* (London)
Bhaskar Menon, *International Documents Review*

MODERATOR: Michael Littlejohns

TRANSNATIONAL CORPORATIONS

Karl SAUVANT, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment, discusses the increasing role those corporations play in the world economy. They have become a part of the solution to the economic problems of the world. Governments are increasingly liberalizing their policies to attract foreign investments. Mr. Sauvant maintains that transnational corporations should not interfere in the internal affairs of countries.

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Director: Ivan Stoynov
Production Assistant: Ellen McGuffie

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ANNOUNCER: From United Nations Headquarters in New York, this is **World Chronicle**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **World Chronicle**.

LITTLEJOHNS: I'm Michael Littlejohns, and this is **World Chronicle**. In recent years, transnational corporations have emerged as a major force in linking national economies and building international commerce. More and more, they shape today's world economy. A recently published report* by the United Nations Conference on Trade and Development, or UNCTAD, focuses attention on how the activities of transnational corporations affect the economic performance of countries.

Our guest today is the team leader who prepared the report. He is Karl Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment. Joining me to talk with Mr. Sauvant are David Usborne of *The Independent*, of London, and Bhaskar Menon of the *International Documents Review*.

Mr. Sauvant, welcome to World Chronicle.

SAUVANT: Thank you.

LITTLEJOHNS: Mr. Sauvant, the transnational corporations not very long ago were regarded with considerable suspicion in the UN community; in fact, there was a whole department devoted to analyzing their activities. They were accused of almost subverting national Governments and exercising power which exceeded that of those Governments, the host countries. Why has the perception of transnational corporations changed, now that they're regarded as the saviours of developing countries?

SAUVANT: Well, I don't think that the perception has changed to such an extent that transnational corporations are considered saviours of developing countries, but there has been a change of attitude, there is no question. Transnational corporations used to be part of the problem; they're now part of the solution. The reason is, I think, that countries, and particularly developing countries, have come to recognize that foreign direct investment is a package of tangible and intangible assets consisting of technology, of capital, of managerial and organizational practices, and access to markets which can help them in the development effort. And, at the same time, the countries themselves have become more confident in dealing with foreign investors and therefore do not feel that they are a threat to their own national sovereignty, but are in fact a tool they can use in order to foster their own development efforts.

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* World Investment Report 1995: Transnational Corporations and Competitiveness.

LITTLEJOHNS: What is the extent of foreign direct investment in the world today from outside sources?

SAUVANT: The most important figure here is that the stock of foreign direct investment is now approximately $2.5 trillion world-wide, and that stock generates sales of approximately $5.2 trillion, which is a volume which is higher than world trade, even though a good part of world trade, about one third, is actually intra-firm trade. And this stock has increased, was increased in 1994 by slightly over $200 billion, and will be increased by approximately $235 billion this year.

LITTLEJOHNS: Are there transnational corporations whose operations in countries other than those in which they're based are greater than their domestic operations?

SAUVANT: Oh, yes. There are many companies, in fact, especially from developed countries, where the share of assets abroad is much higher than the share of assets in the host country. For instance, a very well known case is Nestle, where a good part of the assets, a much larger share than half, is actually outside of Switzerland.

USBORNE: Mr. Sauvant, we're in an environment now where development aid from countries into developing countries is obviously decreasing, quite dramatically in some cases. I'm wondering, for the developing countries, is there – do you believe to any extent foreign direct investment can, in a way, replace that falling government aid for development?

SAUVANT: I think you have to distinguish between two groups of developing countries. You have the least-developed countries, particularly the countries in Africa, which receive very little foreign direct investment, or private capital flows in general. And for them, official development remains the single most important external financial source of promoting internal development. But for other countries, foreign direct investment has become very important. In fact, we have calculated that for 81 developing countries foreign direct investment flows are the single largest component of private flows, external capital flows. So here you're talking about a considerable number of countries that benefit from foreign direct investment.

USBORNE: And those flows are more important to those Governments, those countries' economies, than, say, direct foreign aid is these days?

SAUVANT: Yes.

MENON: You said earlier that transnational corporations were not the saviours, were not perceived as the saviours of developing countries. But in the report you say that a major problem is the types of incentives which developing countries give to attract

transnational corporations. How do you reconcile the two statements, and what is the magnitude of the problem?

SAUVANT: Well, ultimately, countries, having recognized that foreign direct investment is important for them, are trying to attract it. And for some reason, countries believe that offering incentives – fiscal incentives, financial incentives, and other incentives – will make an important impact on the locational decisions of transnational corporations. Now, we know that this is, as a rule, not the case. And this is not knowledge which only results from empirical studies, but this is also what the business community tells you. As a rule, an investment decision is made on the basis of the profit opportunities and other factors which determine whether a particular investment is viable. Nevertheless, countries feel that they have to try to do something, and incentives are a way of doing it. And that gets you into a situation where you have incentive competition which has increased quite substantially over the last decade or so.

MENON: Who is offering the incentives?

SAUVANT: Governments at all levels: central government, community, state governments –

MENON: But geographically, are east Asian Governments –

SAUVANT: Developed, developing, all countries.

MENON: Really?

SAUVANT: All countries.

MENON: You mean China, for instance, which is the largest developing country?

SAUVANT: China – yes, China has also offered incentives. And it is, of course, a situation where nobody would dare – everybody is hesitant to do a first step in terms of reducing incentives. So it's a typical situation for, perhaps, a multilateral approach.

MENON: So you're proposing a multilateral agreement to cover incentives?

SAUVANT: No, we're not proposing a multilateral agreement, we are suggesting that perhaps this is an area where countries should look into the situation and see whether it is in their own interest to pursue this, and if they come to the conclusion that that is not the case, to explore various bilateral and perhaps multilateral approaches in order to at least contain excessive incentive competition. And remember, it's also a situation where developing countries are at a disadvantage, because when it comes to who has the deeper pockets, so to speak, it's not normally the developing countries which can afford out-bidding other countries.

USBORNE: And even in the United States, different states within the United States compete for German car plants, whatever.

SAUVANT: Yes.

USBORNE: I just wanted to ask you, I mean, reading the report it could strike some people as a virtual sort of manifesto for the wonders of what foreign direct investment can bring countries. Because there is a body of opinion, albeit perhaps eclipsed in recent years, that still feels that this free-for-all – open free trade, free flows of capital, free flows of investment – holds terrible dangers, social reactions and so forth. I know there's a small part in your report which touches on the possibility of social backlashes, claims in some countries that the politicians are giving away the crown jewels, and so forth. How seriously do you take that point of view? You seem largely to skate over it in the report.

SAUVANT: Well, we've come certainly to the conclusion that, on balance, the contribution of foreign direct investment to growth is better than any negative effects associated with investment. But such negative effects exist. You might have restrictive business practices, where you don't have competition; the host country may not benefit as much as it could if it would make sure that there is competition. So the issue is not a free-for-all, the issue is basically a situation where you have enterprises trying to maximize their own competitiveness and their own performance, and countries trying to maximize the benefits they can get out of economic activity, including the economic activity of foreign enterprises in the territory. And that requires, of course, a regulatory framework which makes it possible that countries benefit as much as possible.

USBORNE: But citizens in many countries do, nonetheless, have a strong sense of sovereignty.

SAUVANT: Yes.

USBORNE: And as these kinds of investments multiply, are we not going to run into more and more arguments where voters become concerned that basically their country's economy is falling into the hands of a different country altogether? I mean, even in Britain, my country, the car industry is now entirely owned by foreign hands, although I'm not sure that everyone really quite – if you asked a person in the street whether Jaguar was British – of course, it's owned by Ford – I think a lot of them still wouldn't be quite aware of that, and you say, "Actually, it's American", they'd be very upset.

LITTLEJOHNS: What about Rolls Royce? That's still British, isn't it?

USBORNE: I think the car component – well, no, I think you're right. I'm not quite sure. But there have been – for example, John DeLorean in the early '80s invested in a car plant in Northern Ireland, immensely bolstering the spirits of the people in Northern Ireland, and within a short period the whole thing collapsed. And this produced tremendous anger and disappointment. Particularly, in fact, as the Government had given huge incentives.

SAUVANT: Well, take your English example, British example. Do you think that Britain would be better off if the automobile industry in Britain would have died, as it was in the process of doing? I mean, it was declining rapidly, and it was basically saved by Japanese transnational corporations, US transnational corporations. Is it better to have no car industry than a car industry that is efficient, that contributes to employment, that contributes to exports, but is foreign-owned?

USBORNE: I would say it's better so long as you have some controls and it's not a complete free-for-all. For example, there was a long debate about how much local content Japanese cars built in Britain –

SAUVANT: Sure.

USBORNE: I know it's the same in America and lots of countries, of course.

SAUVANT: Sure.

USBORNE: So I assume you agree that there would have to be, there do need to be some controls on how the investments are made, how much local content is put into products made in these countries, and so forth.

SAUVANT: But any business activity, regardless of whether it's owned by men or women, domestic citizen or foreigners, is subject to the rules of the country.

MENON: But what happened to the initiative – which died on the vine, as it were – to have a code of conduct for transnational corporations?

SAUVANT: That was an initiative which started in the late '70s, continued through a good part of the '80s, and died at the beginning of the '90s. I think the reason for that is mostly that at the time it was simply not recognized by key countries that a multilateral framework for foreign direct investment was something that was in their interest.

MENON: But is it is possible to revive the effort now?

SAUVANT: Well, actually things have moved a bit further than that. Negotiations, actual negotiations on a multilateral agreement on investment have started, in September of 1995, in Paris, in the OECD.

MENON: At whose initiative?

SAUVANT: At the initiative of the developed countries, in particular the United States, and a number of other countries. But that is, of course – this is supposed to be an agreement for the OECD countries, although the idea is that at the end, when the agreement is concluded – and the objective is to do that in two years – that it would be open to the rest of the world.

MENON: Now, in the report you have something called a "transnationality index", which is the first time that you've come up with something like this. I was thinking, is it possible to come up with a "good citizenship index" for transnational corporations? Which

would, of course, take the question or the problem of regulating their conduct out of governmental hands and put it in the hands of public opinion.

SAUVANT: Sounds like an interesting idea. What could be the components?

MENON: Well, this is what I was – this leads to the next question, which is, to what extent do transnational corporations cooperate with you? Do they give you information when you ask for it, say, about the environment, about the effect on the environment, effect on social problems, employment?

SAUVANT: Well, we have, for instance, in the report a list of the largest 100 transnational corporations, and we also have for the first time a list of the largest 50 transnational corporations from developing countries. These lists are being prepared in cooperation with the companies involved, on a voluntary basis, of course. In the context of other research questions we have, we have received the cooperation of companies – within, of course, the confines of confidentiality and similar types of considerations. But it might be an interesting thought to come up with a good citizenship type of index, and see, you know, what one could do in that respect.

LITTLEJOHNS: This is **World Chronicle**, our guest is Karl Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment.

MENON: I remember about five or six years ago when you first tried to get transnational corporations to divulge their environmental policies, for instance, you had no luck at all, you had – something like 8 per cent of the corporations polled actually replied.

SAUVANT: No. I think, if my recollection is correct, we had good cooperation from companies, and we established actually a benchmark of management practice, environmental management practices by transnational corporations at home and abroad, because the issue was to what extent are environmentally sound management practices practised not only at home but also abroad. And we are actually thinking of updating this benchmark, and seeing what has happened in five years. We are looking for a donor.

LITTLEJOHNS: Mr. Sauvant, at the beginning of the programme I mentioned the fact that some time ago the United Nations looked somewhat askance at transnational corporations because of the suspicion of undue influence on developing countries where they located. Now, there was a recent case where the largest of all the transnational corporations – namely Royal Dutch Shell, according to your report – was accused of not doing enough to intervene in the case of the hangings of nine dissidents against the Nigerian Government, which has been condemned in a resolution by the UN General Assembly. Perhaps transnational corporations should be doing more to influence Governments, particularly in the area of human rights.

SAUVANT: Well, you certainly are opening a can of worms there. When Papa Menon was referring to the code of conduct negotiations a decade ago, one of the clauses actually which all Governments felt was an important clause was that transnational corporations should not interfere in the internal affairs of the countries in which they are operating. And I think that's a fairly sound principle.

LITTLEJOHNS: So you think that Royal Dutch Shell were right not to get involved, although they've been criticized in editorials in the United States and elsewhere for their failure to do so?

SAUVANT: Well, I don't know the exact circumstances of that particular case, but I think as a general rule transnational corporations should not interfere in the political system and the politics of the host countries in which they are operating.

LITTLEJOHNS: But in Western democracies, like the United States, corporations and industries are very active all the time in lobbying Governments, the Government of the United States and other Western democracies. Why should they not do the same thing, if they are such an important component in the economies of the countries where they're located?

SAUVANT: Well, normally, this lobbying in the countries you're referring to deals with issues in the economic and the business sphere, namely, in the sphere where the corporations have an immediate and direct interest at stake. But when you talk about –

LITTLEJOHNS: But it covers such issues as the environment, for example.

SAUVANT: Yes.

LITTLEJOHNS: The lumber industry, for example, would like to hack down all the northwestern forests with clear cutting, and they're trying to do that in Maine and some other parts of the northeast as well. So, I mean, the environmental issue is also very important in third world countries.

SAUVANT: Yes, yes. No question. And obviously the discussions in these areas are extremely serious and important, but again, I would caution to come up with a general rule which would say transnational corporations should interfere in the political affairs of the countries in which they're active.

MENON: You know, in the – sorry.

USBORNE: No, I was just going to ask a question about China, which emerges in your report as a real powerhouse, both in terms of receiving direct investment and also investing outwards itself, particularly in the Asian region and so forth. In the United States particularly, there's tremendous political hand-wringing about the human rights situation in China, which recently, if anything, has deteriorated, at least in the views of Western democracies. But when you read your report, you sort of get the impression that all this

hand-wringing is really quite pointless when you see the sheer size of these flows of capital. I mean, are the politicians whistling in the wind? Is China emerging as an investment hub in the way that America is now?

SAUVANT: Well, China has certainly been extremely successful in attracting foreign direct investment. It attracted some $34 billion in 1994, and a high amount in 1995. That makes it the second largest host country in the world after the United States. So, clearly, enterprises world-wide are attracted by a booming and growing large economy. And chances are that, as long as China's economic performance continues like that, enterprises will continue to be attracted to that particular market. Incidentally, there's another side of the China story which deserves some attention, and that is that China is also emerging as an outward investor.

USBORNE: Yes.

SAUVANT: And in fact the single largest outward investor among developing countries, which in turn I think is something which deserves attention. In 1994, for instance, 15 per cent of world investment flows originated in developing countries. And if you look into a region like Asia, developing Asia, the most dynamic region, after all, you see that transnational corporations from developing countries in Asia are the single most important investors in Asia, more important than the US, Japan, or Europe. So what you are seeing here is really the emergence of a new phenomenon. It's not really a new phenomenon, but the increased importance of a phenomenon, namely that you have transnational corporations from developing countries which are becoming regional and world-wide players.

MENON: In your studies of transnational investments in developing countries, do you focus at all on the role of non-governmental organizations as oversight bodies on transnational behaviour? In other words, do you work with any of them?

SAUVANT: We have not at all focused on that particular role, no.

MENON: And in your overall – are there any NGOs out there focusing on TNCs, as you, as an inter-governmental organization, you do that?

SAUVANT: Yes.

MENON: But are there any NGOs that do it?

SAUVANT: Yes. In fact, we had just recently, in Geneva, a meeting between UNCTAD and NGOs, a group of 40 or so NGOs – it's an annual meeting. And the issue of transnational corporations was one of the issues which was discussed there, yes.

USBORNE: In your report we go into another region, East Europe, East Central and Eastern Europe, as a little intriguing anecdote of how Volkswagen has apparently turned around the performance of Skoda, in particular, in the Czech Republic, which sadly put an end to all the line of Skoda jokes that I used to love so much. But overall, the impression is

that Central and Eastern Europe is not attracting the capital flows, the investment flows that it had expected. What's happening there?

SAUVANT: Yes. Central and Eastern Europe attracted approximately $6 billion of foreign direct investment in 1994. That's less than Singapore alone attracted during the same year. And the stock of foreign direct investment in Central and Eastern Europe is somewhere around $20 billion. That's approximately what Argentina has alone. So clearly Central and Eastern Europe have not yet attracted very much foreign direct investment. However, as you imply, the potential is quite large. And my guess is that as the economies in that region are recovering – and there are broad indications that they are doing so – they will become more attractive to foreign investors, in particular from Western Europe, who are likely to extend their corporate networks, regional networks, to incorporate their Central and Eastern European affiliates.

LITTLEJOHNS: Mr. Sauvant, a lot of interesting things are happening now in Palestine – quite positive in many respects. Is anything being done to encourage FDI, foreign direct investment, in the emerging situation in Palestine?

SAUVANT: We had actually in this year's report for the first time a separate section on foreign direct investment in West Asia, which means mostly the Middle East. It's another region where there is, comparatively speaking, little foreign direct investment. And we picked up the topic precisely because if the peace process continues we would assume that there is quite some potential for investment into the region and also within the region, including Egypt, Israel and Lebanon. Lebanon used to be a hub for international business activities in the Middle East, and as part of the reconstruction of Lebanon one could imagine that some of this position can be recovered.

LITTLEJOHNS: Are Western corporations showing any interest, do you know?

SAUVANT: Yes, there are several enterprises which have invested in Israel. There are also enterprises which are investing in Egypt. I think the more challenging thought is whether there are some investment projects, perhaps in the tourism or in the infrastructure area, which could actually be of a multinational nature, because they involve, you know, various countries. And it's something which perhaps one should look into.

MENON: Is there a correlation between – I know that, as Michael began by saying, the whole question of transnationals came to the UN because of a perceived influence of the country exporting the capital on the politics of the country importing the capital. Has that ceased? And is there a correlation between the security interests of the major transnational countries in the developing world? For instance, East Asia, you mentioned China. It could be argued that the enormous investment in China is merely a matter of blowing up the

balloon, where a liberalizing economy will eventually lead to a liberalized political system. Is this kind of argument – is it something which you look at, at all?

SAUVANT: We haven't looked at this argument at all, and I would have some hesitation to believe in this type of reasoning. Because the type of work we do tends to show us that the driving force is really globalization itself and competition, the increasing competition which you see in a globalizing world economy where, you know, imports are being liberalized, inward investment regimes have been liberalized, and therefore you don't have any profit reservations any more, there are no safe havens. You know, competition is everywhere, and as a result you have to maximize your own competitive strength, which increasingly includes that you have an attractive portfolio of locational assets. And I think these are really the driving forces.

LITTLEJOHNS: Mr. Sauvant, that's all the time we have. Thank you for being with us on this edition of **World Chronicle**. Our guest has been Karl Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment. He was interviewed by David Usborne of *The Independent*, of London, and Bhaskar Menon of the *International Documents Review*.

I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle**.

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